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Our currency

London

1865

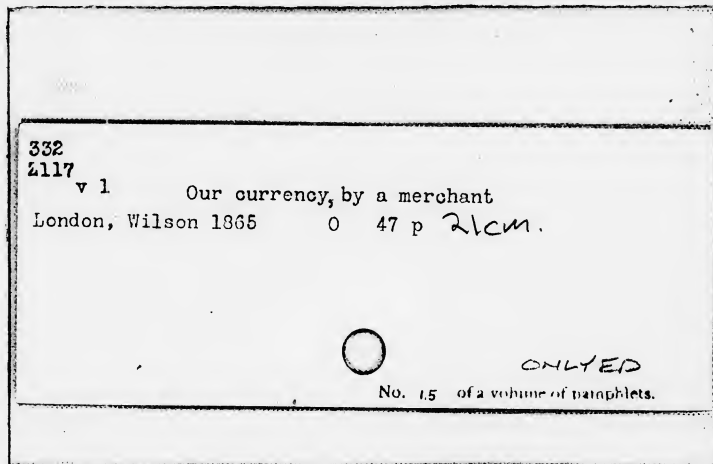
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OUR CURRENCY.

BY
A MERCHANT.



LONDON:
EFFINGHAM WILSON, ROYAL EXCHANGE.

1865.

[ONE SHILLING.]

PREFACE.

IN the recent debate on the "Bank Notes Issue Bill" three members of the House of Commons, each of them an authority on the subject, expressed the following different views:—

1. "Why should a country like England have its rate of discount higher than any other country? The average rate over the Continent last year was from $1\frac{1}{2}$ to 2 per cent. Why in England should money be dearest, the effect being to make the rich richer and the poor poorer? The act gave to the rich a power of grinding the poor. Whilst the rich could obtain abundant interest, every small capitalist was distressed. It was the duty of the State not only to provide a sufficient quantity of gold, silver and copper coin, but it was also the duty of the State to provide a paper currency, and a sufficient quantity of it."

2. "The circulating medium was the only thing with which the Government had anything to do. It was monstrous to suppose that the State was to supply capital. It was a mistake to suppose that with that state of things the State had anything to do, and it was to be

regretted to hear it affirmed that the effect of the act was to make the rich richer, and the poor man poorer. If the Bank of England had no maximum limit of issue, did anybody suppose that money would always be at 4 or 5 per cent.? The rate would fluctuate much more than it did now, *and perhaps it would be better that it should do so.*"

3. "Could not agree that it was desirable that money should fluctuate more than it did at present. There was nothing so important for a commercial community as to have the rate of interest permanent and stable, because upon that people could only base their calculations. A variation in the rate of what was called loanable capital was different from a variation in any other commodity. A rise in the value of cotton did not raise the value of all other articles, but a rise in the value of money caused a fall in the value of all other commodities."

It cannot therefore surprise that the mind of the less elevated strata of the community should be unsettled by great uncertainty prevailing as to the bearing of the act of 1844 on banking and on the currency of the country, and as to the duty of the Government in regard to it.

The Chancellor of the Exchequer in the same debate, stating that "banking was one thing, issue was another—and the misunderstanding on this subject arose from the inextricable confusion in which the minds of men became involved through their supposing that the issue of promissory notes was an essential part of banking"—unmistakably points out one of the main causes of much misunderstanding in reference to this subject.

Under these circumstances the publication of the following pages may prove acceptable to many who desire in a compact form to make themselves acquainted with the facts and recognised principles forming the foundation of our currency, on which alone the superstructure of an improvement of the laws which regulate it can be erected.

LONDON; February, 1865.

INTRODUCTION.

AFTER great fluctuations in the value of paper-money a currency bill was passed in the year 1819; the promoters expected that it would set that delicate question at rest for ever. But when, in 1839, the Bank of England was only saved from stoppage by a timely assistance obtained from the Bank of France, it became evident to all that something was wanting in the law as it then stood. The consequent agitation caused a committee to be procured in 1843, for the examination of the question of banking. The evidence of many bankers and others was taken, and formed the material from which Sir Robert Peel framed the bill of 1844, so well known as Peel's Banking Act.

This act, however, is essentially a currency act. It has no direct reference to the banking theory in general, nor to the reserve to be kept in the banking department of the Bank of England in particular. The avowed objects were :

1. To secure the convertibility of the bank-note, that is, to improve the management of the paper money, making it payable in gold on demand at the mint price of £3 17s. 10½d. the ounce; and 2, to prevent the currency, *i. e.* the whole circulating medium, consisting of coin and

paper money, from being depreciated, and thus to mitigate those constantly recurring commercial crises which from 1819 to 1854 appeared inseparable from the then existing currency laws. The panics of 1847 and 1857, and the crisis through which we are passing, have furnished ample material to criticise the act of Sir Robert Peel. Numerous projects have been brought forward to alter the law; the feeling that something ought to be done to improve matters connected with our currency, has lately extended,* and it is possible that the bill regarding the country issues, recently brought in by the Chancellor of the Exchequer, may open the question of currency to a much wider extent than that intended by the measures proposed: great questions involving a principle will not remain asleep, somehow or other they will turn up again, and so it is also with this currency question. It is in ordinary times considered a very dry subject, and even among the mercantile public, few only pay it serious attention. But immediately after a commercial revulsion, and particularly after the extraordinary event of a rate of interest of 9 per cent. having been maintained for nearly four consecutive months, unsettling commerce in all its branches, and carrying us to the very verge of a panic, the interest of the public in its discussion increases, and it becomes daily more evident that this great question is not yet at rest. Its discussion is, at present, not confined to this country. During the last four years

* At the recent meeting of the Associated Chambers of Commerce, the following resolution was adopted:

"That a special meeting be appointed for the purpose of inquiry into the differential rates of discount maintained by the banks of England and France respectively during the recent monetary pressure, and still continued; and also of ascertaining whether or not in its judgment this difference (which injuriously affects British commercial interest) is caused in any degree or aggravated by the restrictions of the Bank Charter Act of 1844. The committee to report thereupon to a special meeting of the association."

the Americans have made financial experiments on a large scale, in which the regulation of the currency remains a problem unsolved. The agitation regarding the monopoly enjoyed by the Bank of France, to issue notes (which by law are not legal tender), and to regulate the rate of discount, has recently led to the official measure of instituting an inquiry to be conducted under the guidance of Mr. Rouher, Minister of State, and to embrace in its investigation the whole of the principles and the general facts, which influence the monetary circulation of France.*

* The following are the questions proposed by the Conseil Supérieur du Commerce in its investigation of the Currency Question:

On monetary crises.—1. What were the causes of the monetary crisis of 1863-4? 2. What analogies and what differences did that crisis present with preceding ones? 3. Have monetary crises a tendency to become more frequent? Have they a tendency to become more general? 4. What in a country are the causes that regulate the rate of interest? 5. What are the causes which during the last ten years have influenced the price of the precious metals? 6. What are the causes which have recently reduced the amount of disposable capital? 7. Has there been a decline in the formation of savings, or a bad direction given to savings? 8. Has there been an insufficiency of capital or an excess of enterprise? 9. Has the establishment of several Finance Companies on the joint stock form exercised any influence on monetary embarrassments? 10. Are the existence and the organisation of such Companies calculated to delay or hasten causes of crisis? 11. What influence has the participation of French capital in foreign enterprises exercised on the home market? 12. What advantages or what inconvenience does the quotation at the Bourse of Paris of foreign securities and foreign loans present? 13. What during the last ten years have been the imports and exports of the precious metals? Are there any indications that the information collected by the Board of Customs on the matter can be made more complete? 14. Has the displacement of specie taken place on a large scale? 15. To what does that displacing give rise? Does it exercise a marked influence on the transactions in, and the lending of, money? Are there any means of destroying or limiting that action.

On paper money.—16. What is the utility of paper money? 17. Is the part played by that money tending to become very important? 18. Is it by issues of notes payable to bearer at sight, or by means of compensations by transfers, current accounts, cheques, &c., that credit has a tendency to extend? 19. Can the employment of paper money take an indefinite extension? If not, in what limits shall it be confined?

On the conditions of a good paper money.—20. Under what conditions does

Nothing can be more antagonistic than the opinion of the Directors of the Bank of France, and the views of that

the employment of paper money present no inconveniences? 21. Is the constant convertibility of notes indispensable? 22. Does the unity of the bank note promote the circulation of it? 23. What are the inconveniences and advantages of the plurality of banks, whether general, or of limited circumscription?

On the establishments which issue paper money.—24. Does the Bank of France fulfil all the conditions required for a bank of issue? If not, what modifications would be desirable in its organisation? 25. What advantages or what inferiority does the organisation of the Bank of France present in comparison with the organisation and the *regime* of banks, whether of issue or deposit in other countries, particularly the Banks of England, of the United States, of Hamburg, and of Holland? 26. Is there advantage or inconvenience in separating the Issue department from the Discount department? 27. If the notes of the Bank of France were made a legal tender, as is the case with those of the Bank of England, would it have the effect of promoting the circulation of them? 28. What number of signatures ought a bank to require for its true security in the discount of bills? 29. Ought the issue of notes to be limited? Ought the issue to be proportionate to the metallic reserve or to the capital?

On banking operations.—30. At what level ought to be maintained the metallic reserve of the Bank of France, in order to assure the convertibility of notes? 31. What are the causes which tend to reduce or augment the metallic reserve, and the means to be employed to maintain the level of it? 32. What is the part played by, and the destination of, the capital of Bank? Ought the capital to be increased? What would be the effects of the increase? 33. Ought the Bank to sell wholly or in part the Government stock it possesses? What would be the effects of a sale? 34. Ought the capital of banks of issue to be in general a guarantee capital, or can it be usefully employed in the business of the bank? 35. What, for banks of issue, and in particular for the Bank of France, are the advantages and inconveniences of advances on deposit of securities? 36. Is the elevation of the discount the only efficacious means of maintaining or reconstituting the metallic reserve? 37. Is it possible to prevent variations of discount or to confine them within certain limits? 38. Is it possible to impose on a privileged bank a fixed rate of discount or even a maximum? 39. What are the advantages and inconveniences of small notes, especially as regards the maintenance of the metallic reserve? 40. Which of the following means of defending the metallic reserve presents the least inconvenience to commerce:—The raising of discount, the refusal of a certain number of bills, the graduating of the rate of discount according to the periods the bills have to run? 41. Does the present development of international transactions cause a certain dependence one on the other of the metallic reserves of all banks of issue? 42. What are the consequences of that dependence? Is it possible to put an end to it, or to restrict it?

party of financiers and political economists, headed by Mr. Pereire, which are laid down in his late pamphlet.

"The theory of the unchangeableness of the rate of interest, say the Directors of the Bank of France, whatever the circumstances, whatever the value of money, in presence of the incessant obligation to assure the metallic reimbursement of notes, payable to bearer and at sight, would sooner or later result in the suspension of cash payments, unless recourse were had to measures much more onerous to commerce, than the elevation of interest. There is no arrangement, no sacrifices, which could prevent this fatal result, and all the expedients put forth fall within the sterile domain of Utopian ideas."

Their opponents appear to adopt the views of Napoleon I., that the use of a bank is to discount good bills at 4 per cent., and they endeavour to prove that it is a mistake to raise the rate of interest, by doing which industry is destroyed and commerce deranged. No wonder that an inquiry, instituted by the French Government, whose object it is to elucidate such conflicting opinions, should be everywhere considered as a measure of high importance.

The condition of the Bank of England, and the principles of its management, have several times been made the subject of parliamentary inquiries, and there is at present a party agitating to bring about a new inquiry in order to amend the act of 1844.

Little will be required to show that the present system does not satisfy the requirements of theoretical perfection. But it is easier to recognise defects than to decide on the best means for their removal; and it may after all be found more expedient to give the preference, not to those projects which aim at perfection, but to those of less pretension, which guarantee an improvement without, in too great a

measure, disturbing our social and political relations, to which, important as commerce be, it must remain subordinate. Modifications and improvements in the financial system, not less than in any other, are not feasible without injuring the interest of somebody. These are difficulties which must be met resolutely, and they cannot be too often brought before the public.

The currency question is quite alive again. It is of interest, not only to the mercantile, but to all classes; as Adam Smith said: "Money is a commodity with regard to which every man is a merchant."

In order satisfactorily to conduct a discussion or profitably to exchange opinions, it is indispensable not only to agree on the main facts of the case, and some first principles, but also to form a clear conception of the existing state of the law which regulates our currency, and of its practical working. Before proceeding to the observations which we have to offer in this respect, we shall give according to at present generally recognised authorities (Dr. Smith, McCulloch, Mills, Chevalier) definitions of a few terms constantly in use when this question of the currency occurs.

Wealth and Capital.—Wealth may be considered as comprising all the articles or products that are necessary, useful, or agreeable to man, and which at the same time possess exchangeable value, meaning by this quality the power or capacity to exchange for, or buy some quantity of labour, or of one or more commodities or products obtainable only by means of labour. This definition distinguishes between wealth and such articles as are bestowed gratuitously in unlimited quantities by Providence on man. The latter, though they may be, as atmospheric air, of the very highest utility, are necessarily altogether destitute of exchangeable

value. Only those articles which are possessed of exchangeable value, form what is properly understood by wealth, and they constitute what is called the capital of a nation.

Value and Price.—These expressions are often used as synonyms, but they have a very distinct meaning. When we speak of the value of an object, we ought, for the sake of a rigorous precision in expressing our meaning, to point out the other object with which we compare it. It is true, that very often it is understood that we compare it with the generality of other commodities, or pretty frequently, indeed, it is the price that is meant. The price of a certain thing is its value in relation to a substance specially designated, that is to say, to the material of which money is made. The price of an article is, therefore, its value measured by money.

Money.—Money is a certain commodity made of what are called "the precious metals," out of which we create an instrument that serves, in exchanges, as a common measure of value, because it is with it that, in transactions, all other commodities are compared. Pieces of money are merely ingots of uniform weight and fineness, called coins, and certified as such by Government, by means of an impression which is stamped upon them. They are so much and no more. Government places its mark on them in order to attest their uniformity. Before metal was coined it was weighed, which led to many abuses, to prevent which, and to facilitate exchanges, it was found expedient to affix a public stamp upon certain quantities of particular metals, which were commonly made use of to purchase goods. At the commencement it was merely such a stamp upon a bar of metal as is now affixed to plate and bars of silver.

Money possesses, therefore, the twofold capacity of a measure and of an equivalent. It is important to keep this

in mind, for we shall, further on, draw attention to the consequences of the substitutes for money possessing only one of these qualities, namely, the capacity of serving as a measure, without constituting a readily and universally exchangeable equivalent.

"It is this latter quality which gives money the high estimation in which it is held by mankind. It is not because wealth consists more essentially in money than in goods that the merchant finds it generally more easy to buy goods with money than to buy money with goods;* but because money is the known and established instrument of commerce, for which everything is readily given in exchange, but which is not always, with equal readiness, to be got in exchange for everything. The greater part of goods, besides, are more perishable than money, and he may frequently sustain a much greater loss by keeping them. When his goods are upon hand, too, he is more liable to such demands for money as he may not be able to answer, than when he has got their price in his coffers. Over and above all this, his profit arises more directly from selling than from buying; and he is upon all these accounts generally much more anxious to exchange his goods for money, than his money for goods. But though a particular merchant, or class of merchants, with abundance of goods in their warehouse, may sometimes be ruined by not being able to sell them in time, a nation or country is not liable to the same accident. The whole capital of a merchant frequently consists in perishable goods destined for purchasing money. But it is but a very small part of the annual produce of the land and labour of a country which can ever be destined for purchasing gold and silver from their neighbours. The far greater part is circulated and

* Dr. Smith, Book III, c. i.

consumed among themselves; and even of the surplus which is sent abroad, the greater part is generally destined for the purchase of other foreign goods. Though gold and silver, therefore, could not be had in exchange for the goods destined to purchase them, the nation would not be ruined. It might, indeed, suffer from loss and inconvenience, and be forced upon some of those expedients which are necessary for supplying the place of money. The annual produce of its land and labour, however, would be the same, or very nearly the same, as usual, because the same, or very nearly the same consumable capital would be employed in maintaining it. And though goods do not always draw money so readily as money draws goods, in the long run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money; but money can serve no other purpose besides purchasing goods. Money therefore necessarily runs after goods, but goods do not always or necessarily run after money. The man who buys does not always mean to sell again, but frequently to use or to consume; whereas he who sells, always means to buy again. The one may frequently have done the whole, but the other can never have done more than the one half of his business. It is not of its own sake that men desire money, but for the sake of what they can purchase with it."

Bank-notes and paper money.—These two descriptions of circulating mediums and substitutes for coin serve the same purposes for the time they circulate, but they are quite distinct in their nature and their value.

The origin of bank-notes is described by M'Culloch as follows: "The pecuniary engagements of individuals are early reduced to writing. This is necessary to give security to the creditor, that he shall be able to claim the full amount

of his debt, and to the debtor, that he shall not be liable to any overcharge; in a word, to avoid all those differences which seldom fail to arise when the terms of contracts are not distinctly specified. In process of time, and when society becomes more commercial, individuals possessed of the written obligations of others begin to transfer them to those to whom they are indebted; and after the advantages derivable from employing them in this way have been ascertained, it is an obvious source of emolument for individuals of whose wealth and discretion the public have confidence, to issue their obligations to pay certain sums in such a form as may fit them for performing the functions of a circulating medium in the ordinary transactions of life."

The value of such notes is wholly derived from the confidence placed in the ability of the issuers to retire them when presented for payment. Whenever, therefore, this confidence ceases their circulation also ceases. The great usefulness of the adoption of paper as a circulating medium consists in its cheapness. The effect is to substitute a cheap in the place of a dear instrument to serve as common measure of value. It is just as reasonable that a people should substitute paper to gold as a circulating medium, as that a joiner should dispose of a yard measure of pure gold, applying the proceeds to the purchase of tools and stock-in-trade, and using a wooden measure in its place.

There is, however, one consideration which must be dwelt upon, and that is, that paper is only able to serve as a substitute for money in one of its capacities—that of a measure. In order to secure to it also the other, certainly not less important, quality of an equivalent readily and universally exchangeable, it becomes necessary to devise means for securing the ready convertibility of bank-notes as soon as presented for payment. To do this there appears to be no

other means but to compel issuers of notes to give security for the payment of their notes in order to protect the public against their insolvency. This has been attempted by Peel's Act of 1844, of which we shall have to say more further on.

If, however, notes be not convertible into coin, but, by enactment of the State in which they are issued, become legal tender, we call them paper money. The value of such paper money is not derived from confidence in the issuer, but from the power of the Government. A law may make anything a legal tender, and paper is invariably selected because it is the cheapest. If the courts of justices are directed to discharge the debtor who has made that tender, it will circulate, because the use of a circulating medium is indispensable.

The value of legal tender notes depends exclusively on the quantity in circulation compared with the demand. The limitation of their quantity to the requirements of trade is sufficient to preserve their value on a par with the value of the precious metals, and any neglect to fully satisfy those requirements will raise the notes above the par of gold and silver. On the other hand, any excess of issue will tend to depreciate the value of the notes in comparison with the precious metals as well as with all other commodities.

Foreign Exchanges.—The demand for money differs at different periods, and it is in a great degree influenced by the nature of the country's commercial relations with foreigners. If its imports are fully paid for by its exports, the currency required for the internal transactions will be in its normal state, and there will be neither an influx nor an efflux of precious metals. Convertible bank-notes, or paper money and coin, will then be on a par, and the foreign exchanges, by which we express the state of our in-

debtedness to the foreigner, or *vice versa*, will also be on a par.

An increase of issue of bank-notes or paper money will in such a position of affairs, perhaps not at once, alter the relations between notes and coin, but immediately cause a fall in the exchanges, and an export of so much of gold or silver as has been set free by the substitution of bank-notes or paper money. On the other hand, if at a time when the exchange is par, notes be cancelled, the inevitable consequence will be a rise of the exchanges, the effect of which is to bring gold and silver to the country, to take the place of the notes which have been withdrawn from circulation.

The state of the foreign exchanges thus becomes a most important, in fact, the only reliable test to form a correct judgment whether the currency be at its proper level. If the exchanges steadily advance, the issue of notes can safely be increased, for prices of all commodities will and must advance; if on the contrary exchanges steadily fall and precious metals leave the country, it is an unerring indication that prices for commodities must fall, and that to keep the currency at par the circulation of bank-notes or of paper money must be contracted.

Currency is that which, according to the laws of a country, a man must take from another at a fixed value in discharge of an obligation to pay.

Money being the measure of value, it becomes the duty of Government to take effectual precautions that the currency shall truly correspond with that denomination of the standard which each piece represents, *i.e.* that a £5 note shall always be equal to five sovereigns, each of the proper fineness and weight. In this respect Government has to do no more for the currency of the country than it does for the

measures and the weights, but it becomes its duty also not to do less.

Everything else is variable, and dependent on supply and demand—currency remains, according to law, invariable. But the character of our currency is artificial, established by law and not by natural causes. And this leads to those consequences over which people often lament as the difficulties of the currency question, regarding which a statement of facts will prove interesting and useful.

OUR CURRENCY.

ACCORDING to the late Lord Liverpool, gold coins passed current at certain rates fixed from time to time by royal proclamation, and have consequently been legal tender from the time gold began to be coined in England in 1257, till 1664, when the guinea, which was then first coined, and the other gold coins, were permitted to pass current, without any valuation according to the relative worth of gold and silver in the market. This practice continued till 1717, when the rate or value at which a guinea should exchange was fixed at twenty-one shillings. From this period till 1774, gold and silver coins were equally legal tender; but from the circumstance of gold having been over-valued with respect to silver, in the proportion fixed in 1717, almost all large payments were made in gold, silver coins of full weight being exported as soon as they came from the mint, while none but those that were worn and debased remained in circulation. In 1774 it was enacted that no tender made in silver coin by sale should be legal for more than £25; and that any tender or larger sum in silver coin must be made by weight at the rate of 5s. 2d. an ounce. And finally, in 1816, the value of silver was raised above its just proportion, as compared with gold, by coining sixty-six shillings instead of sixty-two out of the pound of Troy, the additional

four shillings being retained by Government as a seignorage, or duty, of $6\frac{1}{4}$ per cent. on the coinage; but in order to prevent this over-valued silver currency from driving the gold currency out of the country, and becoming the sole medium of exchange, it was at the same time enacted that silver should be legal tender to the extent of forty shillings only; while to prevent its sinking in value from redundancy, the power to issue it was placed exclusively in the hands of Government. Under these regulations, silver has become a merely subordinate species of currency, occupying the same place in relation to gold, that copper (which is not a legal tender for more than one shilling) occupies in relation to itself. According to the regulations in the English mint, a pound weight of gold was coined into forty-four and a half guineas, which at twenty-one shillings the guinea, is equal to £46 14s. 6d. An ounce of such gold coin, therefore, is worth £3 17s. 10½d. in silver; and the order to receive no gold coin at the public offices but by weight, tended to preserve it as near to its standard weight as possible, and to prevent gold coins from becoming so much worn and defaced as were the shillings at that period. The present standard gold coin is the sovereign, consisting of a metal of which twenty-two parts in twenty-four are pure gold, and two parts alloy, a mixture of silver and copper. From one lb. Troy of this metal are coined $46\frac{2}{3}$ sovereigns, *i. e.* £16 14s. 6d., so that the mint price per *ounce of standard gold* is = $\frac{1}{12}$ of £46 14s. 6d., or £3 19s. 10½d. And since there are eleven ounces of pure gold in twelve ounces of standard, the *ounce of pure gold* at the mint is $\frac{1}{11}$ of £46 14s. 6d., or £4 4s. 11½d.

The standard of silver coin is made of a metal of which thirty-seven parts in forty are pure silver, and three parts alloy (copper). From one lb. Troy of this metal are coined sixty-six

shillings, so that the mint price per *ounce of standard silver* is 5s. 6d., and since there are $\frac{31}{32}$ ths of an ounce of pure silver in this, the value per ounce of *pure silver* at the mint is $\frac{40}{37}$ ths of 5s. 6d., or 5s. 11½d.

We have now to trace the growth of the bank-notes and the paper money, which we shall find intimately connected with the establishment and the growth of the Bank of England.

The expenses of the wars towards the end of the seventeenth century rendered it necessary to raise supplies by other means than mere taxation, and this necessity led to the establishment of the Bank of England. Its charter dates from the 27th July, 1694, under the title of "The Governor and Company of the Bank of England."

The conditions were that a capital of £1,200,000 was to be raised by subscriptions, which the Bank, in return for their charter, was to lend to the Government at 8 per cent. per annum and £4000 a year for the expense of management.

The bank had the privilege of issuing notes in London and its surrounding districts, but before 1759, in no smaller denominations than £20.

At the commencement the Bank charged 6 per cent. interest upon all bills discounted. Various alterations, however, occurred in the rate for foreign and home bills, and in 1695 foreign bills, except those at short date, were discounted at the rate of 6 per cent., and home bills at 4½ per cent., but to persons who would keep an account with the Bank an inducement was held out in the shape of a reduction of the interest to one half upon foreign bills, charging them only at 3 per cent., and notes were lent at 4 per cent. per annum upon plate, lead, tin, copper, steel, and iron, as securities. As, however, in 1697 the state of the coinage had become so disgraceful, from clipping, etc., that

a new coinage became inevitable, the run on the Bank for the new coin became so great that at times they paid out in new sixpences to meet the pressing demand, and the notes of the Bank declined to 20 per cent. discount, whilst at the same time exchequer orders of the Government were as low as 60 per cent. discount. Under these difficulties the bank advertised for an additional subscription of £1,000,000 to their capital, four fifths to be paid in the discredited exchequer orders, and the remaining one fifth in their own notes.

The Bank obtained as a compensation for the £800,000 exchequer orders which it cancelled a renewal of the charter for five years, with an exemption from all rate, tax, assessment, or imposition of their capital stock or real fund, with all profits thereon; and it was also enacted that forgery of their notes or their seal should be a "capital felony."

The credit of the bank rose at once, and from that time until the present day "exchequer bills" became a favourite instrument of credit with the Government. These bills are promissory notes, due at certain dates and bearing interest, issued by Government when in want of money. These bills the Bank undertook to help to circulate, to advance money against, and also, if necessary, to help to pay when due. And these bills took the place of the old tallies or orders which had been in such discredit.

In 1707 the £1,000,000 which had been subscribed in 1697 was repaid and the credit of the Bank rose still higher. Its charter was again renewed, and the enactment preventing all other banks from having more than six partners gave the Bank of England almost a monopoly of their business. These new privileges, however, had to be paid for. The Bank lent the Government £400,000 without interest and cancelled exchequer bills amounting with interest

to £1,775,027 17s. 10½*d.* To enable the Bank to do this its capital was by three successive subscriptions raised to the nominal amount of £5,500,000.

In 1708 the capital of the Bank amounted to £4,402,343, and it had advanced to Government £3,375,027 17s. 10½*d.* By a call of 15 per cent. (Dr. Smith, Book II, ch. ii) in 1709, there was paid in and made stock £656,204 1s. 9*d.*, and by another of 10 per cent., in 1710, £501,448 12s. 11*d.* In consequence of those two calls, therefore, the bank capital amounted to £5,559,995 14s. 8*d.* In pursuance of the 3rd George I, cap. 8, the Bank delivered up two millions of exchequer bills to be cancelled. It had at this time, therefore, advanced to Government £5,375,027 17s. 10*d.* In pursuance of the 8th George I, cap. 21, the Bank purchased of the South Sea Company stock to the amount of £4,000,000, and in 1722, in consequence of the subscriptions which it had taken in for enabling it to make this purchase, its capital stock was increased by £3,400,000. At this time, therefore, the Bank had advanced to the public £9,375,027 17s. 10½*d.*, and its capital stock amounted only to £8,959,995 14s. 8*d.* It was upon this occasion that the sum which the Bank had advanced to the public, and for which it received interest, began first to exceed its capital stock, or the sum for which it paid a dividend to the proprietors of bank stock; or, in other words, that the Bank began to have an undivided capital over and above its divided one. It has continued to have an undivided capital of the same kind ever since.

In 1746 the Bank had, upon different occasions, advanced to the public £11,686,800, and its divided capital had been raised by different calls and subscriptions to £10,780,000. The state of those two sums has continued to be the same ever since. In pursuance of the 4th of George III, cap. 25,

the Bank agreed to pay to Government for the renewal of its charter £110,000, without interest or repayment. This sum, therefore, did not increase either of those two other sums.

In 1800, the Bank agreed to advance £3,000,000 to Government for six years, without interest, in consideration of which the charter was prolonged till twelve month's notice after the 1st of August, 1833. In 1807, the Bank agreed to continue this loan of £3,000,000 without interest till six months after a definitive treaty of peace, and in 1816, she further agreed to continue it till 1833, and 3 per cent. interest. The permanent debt, due by the public to the Bank from 1800 to 1833, was consequently £14,686,800, but from 1800 to 1816 the Bank only received interest on £11,686,800. In 1833, the charter was continued till twelve months' notice after the first of August, 1835, with the proviso that it might be terminated on twelve months' notice after the 1st of August, 1845. On this occasion the public paid off one fourth part, or £3,671,700, of the sum then due to the bank, making the total debt now due to her £11,015,100, exclusive, of course, of any sums she may be entitled on account of the dead weight and other public securities in her possession.

It has already been stated that before 1759 no notes under £20 were issued. During the war with America, which ended 1763, notes for £15 and for £10 had been permitted to be issued. Notes for these, at that time, very large amounts did not have much effect on the currency of the country, which continued to consist mostly of gold and silver; transactions of country bankers were at that time also insignificant.

A considerable change, however, began to take place during the French war, when, in consequence of the con-

tinual loans, the issue of paper money by the Bank became excessive, and in order to facilitate the circulation of the additions to the currency which became indispensable in order to float the new loans, the Bank was authorised in 1793 to issue notes for £5.

The same symptoms which we have recently witnessed in America now began to appear in this country. Three years after the commencement of the issue of the £5 notes a scarcity of coin began to be experienced at the Bank, and soon afterwards gold in any quantity was hardly to be had. Trade and speculation extended, people began to hoard coins, and everything indicated the approach of a crisis. It broke out in January, 1797, when in the panic caused by the fear of the French invasion, consols went down to fifty-four. The run on the Bank for gold increased, and on the 27th February, 1797, the following notice appeared on the door of the Bank of England:—

“In consequence of an order of His Majesty's Privy Council, notified to the Bank last night (a Sunday), a copy of which is hereunto annexed, the governor, deputy governor, and directors of the Bank of England think it their duty to inform the proprietors of bank stock, as well as the public at large, that the general concerns of the Bank are in the most affluent and prosperous situation, and such as to preclude every doubt as to the security of its notes. The directors mean to continue their usual discounts for the accommodation of the commercial interest, paying the amount in bank-notes; and the dividend warrants will be paid in the same manner.

“FRANCIS MARTIN,
“Secretary.”

The coin in the bank at that time was £1,272,000, against

notes in circulation for £8,640,250. The "order in council" above referred to was termed a "Restriction" upon the Bank from paying any more gold or silver! and it was enacted that it should continue until the 24th June, after which time it was expected the Bank would resume specie payments. Of course this expectation was to be disappointed under the pressure of further supplies for carrying on the war. On the 22nd June another act continued "restriction" until one month after the commencement of the next session of Parliament. In October, 1797, Parliament met and passed, on the 30th November, a third act, prolonging restriction until one month after the conclusion of the war. In 1802 and 1803 two more acts were passed, the latter of which, on the 15th December, authorising the continuance of the paper currency until six months after the next definite treaty of peace, and this act was continued forward until the year 1819. Thus, out of the originally intended fifty-two days, arose a system which lasted for twenty-two years, saddling the country with an inconvertible legal tender.

The state of affairs was much aggravated by the necessity to provide the Bank with a substitute for the guineas which had disappeared from circulation. This substitute was ordered, 1797, to consist of £2 and £1 notes. The country was flooded with them, but like in America, it was not but after the lapse of some time that their depreciation commenced. It was not before the latter part of 1800 that they fell to a discount of 8 per cent. Soon after they recovered, and from 1803 till 1808 they were at a discount of only £2 13s. 3d. per cent.

From that time, however, the issues rose rapidly, the average circulation of bank-notes which had varied between 17½ and 16½ millions, rose in 1809 to 18,927,833, and in 1810, to 22,541,523, and the issue of country bank-paper

were increased in still greater proportion. At the time when only notes of large denomination were circulated, the number of country banks was very restricted. In 1776 their number in England and Wales, although not exactly known, is estimated at not over 150. In 1792, private banks amounted to about 350, of which about one third failed in the crisis of 1793. In 1800, the private banks exceeded 300, and so rapidly did their number increase during the inflation of the depreciated currency, that in 1814 they amounted to 940.

The following table shows at a glance the variation in the value of the currency compared with gold:

Years.	Price of Gold.	Difference from Mint price.
1809 .	£4 10 9	16½ per cent.
1810 .	4 5 0	9½ "
1811 .	4 17 1	24½ "
1812 .	5 1 4	30 "
Sept. to Dec., 1812 .	5 8 0	38½ "
1813 .	5 6 2	36½ "
Nov., 1812, to March, 1813 .	5 10 0	41 "
1814 .	5 1 8	30½ "
1815 .	4 12 9	18½ "
1816 .	4 0 0	2½ "
Oct. to Dec., 1816 .	3 18 6	under 1 "
1817 .	4 0 0	2½ "
1818 .	4 1 5	5 "
1819 to Feb. .	4 3 0	6½ "
1820 .	3 17 10½	par.

The crisis of 1814, 1815, and 1816, aggravated in the latter year by the consequences of the Bank preparing to resume cash payments six months after the conclusion of peace, rendered bankrupt no less than 89 country banks, greatly reduced the amount of the currency, and raised its value towards the end of 1816 to nearly par with gold.

The belief in the expediency of the early repeal of the restrictions of cash payments became now general, and ended

in the enactment of the "Peel's Currency Bill of 1819, for the restoration of cash payments from and after the 1st day of May, 1823." It was a repeal of all bank-notes on demand for sums less than £5. It provided for a gradual return in the meantime by the Bank to cash payments, beginning with an issue of gold at £4 1*s.* the ounce in 1820, and ending with the standard mint price of £3 17*s.* 10½*d.* It also required the Bank to publish every quarter, until May, 1823, an account of its average circulation. This act has been severely criticised, and by many been condemned as not only an injurious, but highly unjust measure. It must, however, be stated that resumption of specie payments was according to all previous promises and enactments, and that in consequence of natural causes the currency had already, in 1816, appreciated to nearly its par value, so that the passing of the above bill did little more than to maintain the currency at the level to which it had already risen.

One great defect, however, is to be noticed in this bill, viz., the want of any provision with reference to the issues of country banks. It was notorious that their injudicious banking had mainly contributed and brought about the commercial disasters of 1793, 1814 to 1816. No steps, however, were taken to reform them, and the system, which enabled every individual to issue notes to serve as currency in the ordinary transactions of everyday life, was allowed to continue unchecked. Considering that notes were issued of such small denominations as £2 and £1, and that they were to be the standard of measure for everything else, it cannot be denied that it was the duty of Government to take measures to render these circulating mediums steady in their value. This, however, was impossible as long as Government had no control over the issuers. And let it not be said that the people might protect themselves, that all that

is necessary is that notes of private bankers should not be legal tender. It is all very well for bankers, merchants, and those conversant with money matters generally to say, "It would be hard for any one to explain by what principle the Government is called upon to interfere with the freedom of individuals, to put forth whatever pecuniary promises they may see fit, whether in the shape of notes or bills or anything else." The mass of the people, the uneducated and ignorant, are not always able to judge for themselves, and they naturally look to Government for some sort of protection. In regard to this McCulloch pointedly says: "It has been said that though coins be legal tender, notes are not; and that as every one who suspects the latter may reject them, there is no ground for the interference of the legislature! But the truth is, that whatever notes may be in law, they are, in most parts of the country, practically and in fact legal tender. The mass of the people have no power to refuse them. The currency of many extensive districts consists almost entirely of country notes, and such small farmers, tradesmen, or labourers, as should refuse to take them, would be obliged to migrate elsewhere. There cannot, therefore, be a doubt that this is a case in which Government is justified in interfering. We have sustained comparatively more mischief from the issue of spurious paper than from that of base coin, and to obviate such mischief in future it is proper either to suppress local issues or so to deal with them that the public may be secured against loss."

But losses were not only sustained by issues of country bank-notes. The forgeries of Bank of England notes were also very frequent, as proved by the fact that in 1820 154 persons were tried at the Old Bailey alone for uttering false notes, and that, the crime being a capital felony, of

these forty-six were hanged!* This severity of the law became necessary to prevent the notes of small denominations from getting altogether into disrepute.

The Bank did not wait for the term stipulated, but resumed cash payments at once, in 1820, and gradually withdrew its small notes from circulation. These severe measures caused much and wide-spread distress, to mitigate which parliament, in the session of 1822-23, found no other means than to enact a respite of the £2 and £1 notes for eleven years.

This was tantamount to a repeal of Peel's bill, for although the Bank of England abstained from availing of this new license, the country banks put their papers out again with redoubled energy; and now followed a period of extravagance, speculation, and swindling, to an extent never known before. In 1823 over £441,000,000 were subscribed to 532 companies. Of course the inevitable crash followed; and in December of 1825, the Bank of England contemplated again the probability of being entirely exhausted of gold. The amount of coin was under £1,300,000, and the Bank saved itself from stoppage merely by the issue of £1 notes, a quantity of which was *luckily* still found in the cellars of the bank. The Bank of England was thus saved from undergoing a second time a disgrace, but thirty-seven country banks stopped in 1825, and forty-three more in 1826. In May, 1829, the £2 and £1 notes ceased to be circulated; as there were, however, not at once gold and silver coins in sufficient quantity to take their place, prices of all commodities fell again. This led, together with political considerations, in 1832, to a run upon the Bank, which was only stopped short by the passing of a bill that the bank paper should be "legal tender" for payment of all sums above £5, and leaving it in the power of any person to get

* T. Doubleday, 'Financial History of England,' p. 250.

money for notes, by taking it in sums of £5 at a time, but not otherwise.

We come now in this brief history of our currency to the memorable administration of Sir Robert Peel. When, in 1837, the disastrous consequences of the American crisis made themselves felt throughout Europe, its effect was aggravated in England by short harvests in 1838 and 1839; and towards the end of the latter year, the drain on the Bank of England for gold became so great that, as Mr. Samuel Lloyd expressed it in a pamphlet published in December 1839, "without the protection of this peculiar operation (assistance indirectly obtained from the Bank of France to the amount of £2,000,000), the bullion of the Bank would have been completely exhausted." In November 1839, the bullion in the Bank was reduced to £2,545,000. The alarm created by this state of affairs was sufficient to attract the serious attention of the Government to the state of the currency.

A clause in the bank charter of 1833 gave to parliament power to revise or cancel it in 1845, and Sir Robert Peel took advantage of this opportunity to alter the system. And the result of a long parliamentary inquiry were the acts of 7 and 8 Vict. c. 32, referring to the Bank of England and the English country banks, better known as Peel's Banking Act of 1844; and acts 8 and 9 Vict. c. 38, 39, referring to banks of Scotland and Ireland, which were passed in the year following.

Considering the difficulties against which the framer of these measures had to contend, consisting not only in popular prejudices, but also in the private interest of a large and powerful class, it would be unjust to complain that the act has not succeeded in substituting a perfect system; but it would be not less unjust to refuse acknow-

ledging that the new measures have remedied to a considerable degree the defects formerly complained of.

The object of the act of 1844 was to regulate the currency, and in introducing it Sir Robert Peel said that it would place the currency of the country under the same regulations, as to its increase and diminution, as it would be if the whole circulation was metallic, without any paper whatever.

The power of the Bank was to be limited. It had hitherto been a bank of issue, *i.e.* an establishment with authority to issue its notes at its own discretion, subject only to the liability of paying its notes in gold when presented for payment. This authority was henceforth to be withdrawn, and the power to issue to be limited. For this purpose the banking department of the Bank of England was completely separated from the issue department. The directors were left at liberty to manage the former at discretion, but the issue department became an office of the State. The working of this office is described by the 'Home and Foreign Review' as follows:—

"The issue department is really and truly made an office of the State, working by purely mechanical rules—an automaton, whose movements are destitute of all volition, obeying a fixed self-acting rule, without intellect, thought, or opinion. The Bank of England supplies the requisite machinery to this automaton; it furnishes premises, clerks, ledgers, paper, vaults, and pens and ink, and then leaves it to act for itself. That department, working thus in certain rooms provided by the Bank of England, simply responds to the impulses impressed on it by the public. When five sovereigns are dropped into its hand, a note is mechanically passed over the counter. When the same note reappears on another day, the operation is reversed: the sovereigns are

given out, the note is called in and cancelled. And this action the automaton repeats as often as any living mortal sets it going by the presentation of a note or sovereigns."

The Bank is, however, allowed to issue £14,000,000 of notes upon securities (of which the debt of £11,015,100 lent by her to Government is a part). A clause is inserted in the act allowing the Bank to increase her issue upon securities, in the event of her notes being issued instead of those of any or of all the existing banks of issue. Under this clause the issue on securities now (February, 1865) amounts to £650,000. Whatever paper the issue department may at any time issue over and above this maximum amount of securities, it must have an equal amount of coin and bullion in its coffers. By this means the convertibility of the notes at all times was sought to be secured, as it was now no longer in the power of the Bank to create notes at pleasure, to supply the place of cash in any emergency.

Important as this enactment was in its influence on the state of the currency, it was surpassed by the provision made in the act for restraining the country circulation. The maximum future issue of the joint stock and private banks in England and Wales was limited to the average amount of the circulation of each during the twelve months preceding the 27th of April, 1844, the aggregate being £3,477,321 for the joint stock, and £5,011,097 for the private banks. To protect the Bank of England they were prohibited from issuing bank-notes at any place in and within sixty-five miles around London. It was further enacted that no new bank should be established for the issue of notes; and that the names of the partners in joint stock and other banks, which had previously been obtained by the Stamp Office, should be periodically published. In case of bankruptcy of a country bank, the power of issue was not to be revived, but it was

provided that, on the lapse of the circulation of any ordinary bank, the Bank of England might be authorised to add to her statutable amount of notes issued against Government securities, a sum not exceeding two thirds of the circulation thus lapsed.

To complete the regulations, we have still to mention the statutes relating to banking in Scotland and in Ireland. They also prohibit the establishment of a new bank of issue; they fix a certain maximum for *each* existing bank in either country, amounting in the aggregate in Scotland to £2,749,262, in Ireland to £6,354,494, and then enacted that up to that maximum each bank might continue to issue as before; but above that maximum each bank must have bullion for every note. In order to arrive at the maximum to be fixed by law, "I propose," Sir Robert Peel said, "that we should ascertain the amount in circulation for some years past of the issue of these banks in Scotland and in Ireland; not to impose any limitation on the amount of the future issues of paper, as far as that ascertained issue extends; but to require from them, if their issue should extend beyond that certain amount, then that that issue shall take place on specie." Thus, on the assumption that during the depression preceding the passing of the Act the currency of the country was rather below its level, Sir Robert Peel considered it safe to allow that amount to go on unsecured. All issues above this amount were to be secured by a corresponding amount of gold to be kept in the till of the issuers, and it was expected that henceforth the mixed circulation would be considered in every respect equal to a metallic currency, and that the object, "to put the money of the country right," would have been attained.

The authorised unsecured currency of the United Kingdom consequently consists of—

Bank of England notes (legal tender)	£14,000,000
Ditto in addition thereto (variable as per clause to act of 1844) at present (legal tender)	650,000
Notes of country joint stock banks (bank-notes)	3,477,321
Ditto private banks (bank-notes)	5,011,097
Ditto Scotch banks (bank-notes)	2,749,262
Ditto Irish banks (bank-notes)	6,354,494
Total unsecured currency	£32,212,174

i. e. not otherwise secured but by the credit of the issuers. This vast amount of currency is distributed according to last parliamentary returns of 1st June, 1864, as follows:

In England and Wales—By the Bank of England and 11 branches; 140 private banks and 208 branches; 61 joint stock banks and 441 branches.

In Scotland—By 13 joint stock banks and 594 branches.

In Ireland—By 6 joint stock banks and 191 branches.

There are besides banks not of issue, according to the same return:—

In England and Wales—138 private banks and 64 branches; 56 joint stock banks and 303 branches; besides 4 branches in Scotland, 1 branch in Ireland, and 14 branches abroad.

In Ireland—4 joint stock banks, and 6 branches, and 4 private banks.

The remainder of the currency of the country consists of coins, and of notes for which, according to law, a corresponding amount of gold is held by the issuers.

Whatever may be said of this system, it is not a very simple one, but it becomes more complicated still by the peculiar position of the banking department of the Bank of England. Over it the directors have still unlimited control. If by the separation from the issue department the banking department had become altogether disconnected from the Government—if it were, what in theory it ought to be,

merely a bank of deposit and discount, we would not hear much of it. In the position of directors of merely a great bank, they should be governed by the same principles of any other prudent banker, one of the first of which is to maintain a sufficient reserve for banking purposes. The object of the reserve is to answer the calls of the depositors and to discount the bills of the regular customers. Every banker who carries on his business on a sound basis can and will always do so, by refusing to discount beyond his means. This simple rule, however, does not guide the directors of the Bank of England, who as heads of a national establishment appear to consider it their duty and within their power to regulate the money market. This must be regarded as a consequence of the anomalies arising out of the institution of the Bank.

In theory its banking department is merely a large bank of deposit and discount. In practice it is something more, in consequence of the monopoly which the Bank has enjoyed from its commencement. This monopoly has lately been fully described in the able articles on the money market in the 'Economist,' as that of being the banker of the Government; of being the one bank of limited liability; of being the one joint stock bank, and of being the sole issuing bank in and within 65 miles around London.

The Bank of England has thus become the great money centre. Instead of a number of banks, each keeping its own reserve, the Bank of England has become the National Bank, and all other banks or bankers keep their reserves either in deposits at the Bank of England or in its notes; and although the monopoly is now removed, the effects of it continue, and we have at the centre of our monetary system a bank which alone keeps the bullion reserve of the country, but which, although responsible for it, is under no effectual

penalty for not keeping it. A private banker, if he neglect to keep his reserve, is punished most effectually by being obliged to fail in time of crisis. Not so the Bank of England. Its affairs have been mismanaged many times before 1844, and twice since the passing of the act—in 1847 and 1857, without, however, affecting its credit. This anomalous position of the Bank imposes an obligation on the directors, which they too readily accept. They consider themselves bound to assist commerce beyond the means of their reserve, and to discount or lend money to any amount on good bills of exchange, and not, as other bankers, to their regular customers only. In the parliamentary committee subsequent to the crisis of 1857 the governor of the bank declared that he did not refuse any one who brought good bills, even not on the 12th November, when, after having discounted and advanced £18,044,000 the reserve stood at £580,750, against undrawn deposits of private bankers and others amounting to £5,458,000. And to the question put in the committee of inquiry:

"Then, if upon the establishment at Threadneedle Street there had been a demand for £1,000,000 out of the £5,200,000 of bankers' deposits, omitting other deposits—under these circumstances the Bank of England would have been obliged to suspend payment?" Mr. Neave, the governor of the Bank, could only reply, "Certainly." There was at that time a great demand for notes, not for gold, but the banking act prevented any being issued without a corresponding amount of gold being sent to the bank. No gold coming forward quickly enough to supply the pressing demand for notes, to prevent greater mischief, the bank act was suspended; discounting went on with notes issued on the credit of the Bank or of the Government, and unhesitatingly taken by the public.

However, after the crisis had passed, the directors determined on excluding rediscounters from their discount facilities—a measure which the majority of merchants has hailed as one in the right direction. Last year we had a narrow escape; when the rate of discount which, early in May, had judiciously been raised to 9 per cent., was gradually lowered to 6 per cent. in June, the measure was repeatedly pointed out as a great mistake. Had the directors' extreme rate at that time been maintained for nearly three months, as it was found expedient to do afterwards from September to November, much of the highly speculative business entered into in summer, and which has turned out so ruinous, would have been avoided. By timely applying the remedy of maintaining a high rate of interest until the exchanges unmistakably turn in our favour, the effect of the crisis would have been considerably mitigated. This measure they applied resolutely in autumn; notwithstanding clamorous remonstrances, they maintained a high rate of interest for an unprecedentedly long period, and they contrived, by that means, to keep a reserve adequate to their requirements, which enabled them to overcome all difficulties during the last pressure. The measure has been much complained of, but it is preferable, no doubt, to any of the remaining alternatives, viz.: the refusal of a certain number of bills, or the graduating of the rate of discount, according to the periods the bills have to run.

As people who borrow money at interest do not do so from any desire to keep the money, but either to pay debts already contracted, or to purchase any other commodity, it is evident that the amount borrowed very soon afterwards becomes available again in other hands to be lent out at interest. This explains how, under ordinary circumstances when credit is undisturbed, a comparatively

small amount of currency suffices to liquidate transactions of great magnitude. But in times of undue expansion of trade, always accompanied by distrust, a change occurs; people find it difficult to get accommodation, and very annoying to see their profits dwindle down, or may be their losses added to by the high price they have to pay for the loan of currency in the shape of interest. Then that state of affairs arises of which we have lately heard so much in France, when industry is destroyed and commerce deranged, and which causes such wide-spread dissatisfaction among all classes of borrowers. It then happens that wilfully or erroneously statements are put forth regarding the working of the system, &c., which are not borne out by facts, but which are nevertheless eagerly taken up by those anxious for an explanation of effects, the causes of which are seldom duly investigated. Condemnations of existing institutions and laws multiply in the same proportion as recommendations of remedies and improvements. The bank act is then denounced as a complete failure, as proved by the necessity which arose in 1847 and 1857 for its suspension—a necessity from which we had a narrow escape a few months ago; and it is further urged that “instead of preventing panics and commercial distress from currency causes, there can be no question that, under the law of 1844, panics have been quite as frequent and greatly intensified.” The bank act was not passed to prevent the occurrence of crises. It might as well be asserted that it had been adopted to prevent unsafe speculation and overtrading, or to prevent ignorant and reckless people from losing their or other people's money. The bank act leaves the directors of the Bank free scope in the management of their department; it cannot, therefore, be made answerable for any consequences of that management. The directors know, or ought to know, their

resources, and it is their business to husband them. If the Bank, according to former practice, had last year met the demand for bullion by an increased issue of notes, instead of raising the rate of interest to prevent the efflux of gold, the crisis would, no doubt, have been delayed, but it would inevitably have ended with a suspension of cash payments.

In theory, it is true there are always £14,000,000 notes in circulation, for which no gold is to be had, but for all practical purposes, in so far as regards the convertibility, this is of no consequence. At no period since 1844 has the circulation been less than £19,000,000, and at no period has the coin and bullion, held for their redemption, been less than £6,000,000. On the 12th November, 1857, when the Government letter prevented the banking department from stopping payment, the coin and bullion amounted to £6,524,000, and the circulation to £20,000,000. Nobody entertained any apprehension lest the notes should not be paid in gold if asked for. Before 1844, the bullion in the Bank of England has at times been considerably less—viz., in 1837, £4,089,600; in 1826, £2,459,510; in 1797, £1,036,170.

There has always been since 1844 an ample supply of gold in the issue department to answer all demands, which might be made upon it by the holders of bank-notes. The following table, showing the amount of bullion, and of circulation at different periods, under various rates of interest, is suggestive.

RATE OF DISCOUNT $2\frac{1}{2}$ PER CENT.

March, 1845	.	Bullion, 16 millions.	Circulation, 21 millions.
Nov., 1849	.	" 16 "	" 19 "
Dec., 1858	.	" 19 "	" 20 "
Dec., 1859	.	" 18 "	" 22 "
Dec., 1862	.	" 16 "	" 20 "

RATE OF DISCOUNT 7 PER CENT.

Oct., 1855	.	Bullion, $11\frac{3}{4}$ millions.	Circulation, $21\frac{1}{2}$ millions.
Oct., 1857	.	" 10 "	" 20 "
Jan., 1861	.	" 13 "	" $20\frac{1}{2}$ "

RATE OF DISCOUNT 8 PER CENT.

Aug., 1847	.	Bullion, $9\frac{1}{2}$ millions.	Circulation, $19\frac{1}{2}$ millions.
Oct., 1857	.	" $9\frac{1}{2}$ "	" 20 "
Feb., 1861	.	" $11\frac{1}{2}$ "	" $19\frac{1}{2}$ "
Dec., 1863	.	" 13 "	" 21 "

RATE OF DISCOUNT 9 PER CENT.

Nov., 1857	.	Bullion, $8\frac{1}{2}$ millions.	Circulation, 20 millions.
May, 1864	.	" $12\frac{1}{2}$ "	" $21\frac{1}{2}$ "

The convertibility of the bank-note is not absolute, but, by the act of 1844, the guarantee for it has become very great, and by it the currency has been placed on a different footing from what it previously was. Formerly there was no limit to the issues. The directors were in the habit of increasing their paper circulation as the gold left the country, in order to fill up this void; so that it often occurred that at those very periods when there was the largest amount of note circulation, there was the smallest amount of gold in their cellars. Now the directors have no control over the amount of notes in circulation, it being determined by the self-acting machinery of the issue department. Of this the opponents of the system bitterly complain, and consider the attempt unreasonable to limit the currency, and to confine it at present to the same amount that was required in 1844 in the face of the immense increase of the amount of commercial transactions, our exports alone having risen from £58,000,000 in 1844, to £160,000,000 last year. This objection Mr. McCulloch conclusively disposes of as follows:—"The dependence of the issues of paper on the

flow of bullion into and from the coffers of the issue department has been said by the opponents of the system to limit the currency, and to confine us at present to the same amount of money that was required in 1814, notwithstanding the immense increase of commercial transactions in the interval. But though this statement has been made by parties who ought to have known better, the reader can hardly require to be told that it is completely destitute of foundation. The £14,000,000 issued on securities is the only thing limited in the act; everything else varies with the varying condition and circumstances of the country, including the means by which the use of money may be economised. In the week ending 1st April, 1863, the issue department of the Bank had issued notes to the amount of £28,937,735, being no fewer than £14,937,735 over and above the amount authorised to be issued on securities. And if the country had really required a larger supply of money, that is, if more coins, or paper equivalent to coins, could have been absorbed into the circulation without rendering the currency redundant and depressing the exchange, the additional quantity would have been forthwith supplied. For under such circumstances, merchants, bankers, and money-dealers would have realised a certain and immediate profit by carrying bullion to the mint, or to the Bank, that they might obtain coins or notes, or both, with which to increase the currency. It is one of the chief merits of the act of 1814 that, under its agency, the supply of money is not to any extent, or in any degree, regulated or influenced by the proceedings of the Bank or the Government. They have nothing to do in the matter unless it be to coin the bullion which individuals or firms carry to the mint for that purpose, and to exchange, when called upon, notes for coins and coins for notes. The

supply of money, like that of all non-monopolised articles, is wholly dependent upon, and is determined by, the free action of the public. It would indeed be quite as true to say that the act of 1814 limits the amount of corn, of cloth, or of iron produced in the country, as that it limits the amount of money. It maintains the value of the notes issued by the bank on a level with the coins for which they are substitutes; but beyond that its effect is nil. It has nothing whatever to do with the greater or less amount of the currency—that depends entirely on the estimate formed by the public of its excess or deficiency, an estimate which, when wrong, is sure to be corrected by the exchange. No inference can ever be safely drawn from the number of notes or coins, or both, afloat in a country, as to whether its currency be, or be not, in excess. That is to be learned by the state of the exchange, or by the influx and efflux of bullion. If the imports of bullion exceed the exports, it shows that the currency is in some degree deficient; while if the exports exceed the imports, it shows that the currency is in excess, and that no additions can be made to it without further depressing the exchange, and increasing the drain of bullion. When the imports and exports of bullion are about equal, then of course the currency is at about its proper level. These are the only criteria by which anything can ever be correctly inferred in regard to the deficiency or excess of currency. Its absolute amount affords hardly even a basis for conjecture. When there is little speculation or excitement, an issue of 25,000,000 or 27,000,000 bank notes may be in excess; while at another time, and with a different state of trade and speculation, an issue of 35,000,000 or 37,000,000 may not be enough. Except in periods of internal commotion, or when we are disturbed by alarms of invasion, the state of the exchange is the only, as it is the

infallible, test of the sufficiency and insufficiency of the currency."

The influence of the Act on the currency is to some extent countervailed by the increase of the use of substitutes. The necessity for a larger amount of currency has been obviated by the contrivances of credit, which have to a great degree supplanted coins and bank-notes.

Bank-notes began to be substituted for coins. Cheques, current accounts, and last, but not least, the substitution of the clearing house, have gradually taken the place of the greater part of both in settling the yearly increasing transactions of the country.

Credit has thus gradually been substituted for money—a very delicate machinery requiring great attention and constant supervision, for a very clumsy one which could be worked by unexperienced hands. But *credit means trust in promises to pay gold*. Its use has proved imminently beneficial to the development of commerce and industry, its abuse in the same degree disastrous.

The use of these facilities to conduct the daily transactions of commerce is familiar to all. We will only say a few words in reference to the clearing house. In it every day the transactions of whoever keeps an account with a bank as banker, admitted to the clearing house, are liquidated. Formerly the balances were paid over among these bankers in sovereigns or bank-notes. And when, twenty-five years ago, the transactions of the clearing house amounted to nearly 1000 millions annually, about £200,000 on an average were daily required for that purpose. Since then arrangements have been made with the Bank of England by which the use of bank-notes is completely dispensed with. The transactions have more than doubled in amount, and they are settled by transfer of the balances on

the accounts of the several bankers at the Bank of England. These various contrivances account for the fact that the circulation of this country has not increased in proportion to the increase of commerce. On the contrary, the circulation in England and Wales, and the total in the United Kingdom, are less now than twenty years ago.*

The abuse of these facilities of credit, which economise currency, has invariably led to disastrous consequences, which are often, but wrongly, attributed to defects in our currency system.

* CIRCULATION.

	Total in England and Wales.	Total in United Kingdom.
In 1845	£29,430,000	£39,670,000.
Highest since—in 1853	30,800,000	40,330,000.
Lowest since—in 1849	25,680,000	33,130,000.
Dec. 10th, 1864	25,618,822	36,118,323.
Jan. 7th, 1865	25,267,925	35,254,542.
Feb. 7th, 1865	26,330,011	36,201,295.

At present, therefore, the English private banks are below their fixed issue	£1,138,627
The English joint stock banks below	438,268
Total English banks below	£1,576,895

The Scotch banks are above their fixed issue	£1,408,305
The Irish banks are below their fixed issue	640,786

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